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Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 RSC-01

CIEP-01 TRSE-00 SS-15 STR-01 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-05 NSAE-00 XMB-02 OPIC-03 LAB-04

SIL-01 FEA-01 AEC-05 DODE-00 FPC-01 H-01 INT-05 L-02

PM-03 SAM-01 OES-03 PA-01 PRS-01 USIA-06 /098 W
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POUCHED INFO ALL CONSULATES IN CANADA

E.O. 11652:N/A
TAGS: EFIN EMIN ENRG CA
SUBJECT: FEDERAL AND PROVINCIAL FINANCE MINISTERS MEET AND AGREE TO DISAGREE

BEGIN UNCLASSIFIED

1. SUMMARY. ON DECEMBER 9-10, FINMIN TURNER MET IN LOASED-DOOR SESSIONS WITH PROVINCIAL MINISTERS OF FINANCE AND PROVINCIAL TREASURERS. TURNER'S ADDRESS TO THE MINISTERS ON RESOURCE TAXATION AND FEDERAL EQUALIZATION PAYMENTS WAS MADE PUBLIC AND REVEALED NO COMPROMISE WITH PROVINCIAL AUTHORITIES ON THESE ISSUES. TURNER REQUESTED HELP FROM PROVINCIAL MINISTERS IN FIGHTING INFLATION AND PROMISED "COMPENSATION" TO SECTORS OF ECONOMY WHICH VOLUNTARILY LIMIT PRICE AND WAGE BOOSTS. END SUMMARY.

2. FINANCE MINISTER TURNER MET WITH PROVINCIAL MINISTERS OF FINANCE AND PROVINCIAL TREASURERS ON DECEMBER 9-10 AND
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REITERATED GOC POSITION ON RESOURCE TAXATION AND FEDERAL

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EQUALIZATION PAYMENTS. ALTHOUGH MEETINGS WERE CLOSED TO PUBLIC, PRESS REPORTED THAT SESSIONS WERE HIGH-LIGHTED BY VERBAL ATTACKS OF ALBERTA, BRITISH COLUMBIA, AND SASKATCHEWAN OFFICIALS ON FEDERAL POLICY AND BY COOL RECEPTION OF PROVINCIAL AUTHORITIES TO TURNER'S "PLAN" TO FIGHT INFLATION.

3. TURNER'S STATEMENT TO MINISTERS' MEETING ON TAXATION OF RESOURCE INDUSTRIES REPEATED ARGUMENTS GIVEN BY HIM AND OTHER GOC OFFICIALS REGARDING FEDERAL GOVERNMENT'S RIGHT TO TAX ANY ENTERPRISE "DOING BUSINESS IN CANADA WHEREEVER LOCATED". IN PROPOSING TO DISALLOW DEDUCTIONS OF PROVINCIAL ROYALTIES AND OTHER PROVINCIAL PAYMENTS FROM FEDERAL TAXES, TURNER SAID THAT THESE MEASURES WERE NECESSARY IN ORDER "TO PREVENT THESE PROVINCIAL LEVIES FROM SUBSTANTIALLY REDUCING THE RETURN TO THE FEDERAL GOVERNMENT". HE CHARACTERIZED PREVIOUS PROVINCIAL ROYALTY PAYMENTS AS "MODERATE AND FLAT CHARGE AGAINST A UNIT OF PRODUCTION", BUT THAT PROVINCES HAD "RADICALLY CHANGED THIS TRADITIONAL PRACTICE" AND HAD INSTITUTED NEW CHARGES WHICH WERE "THINLY DISGUISED INCOME TAXES".

4. TURNER CONTENDED THAT FEDERAL GOVERNMENT HAD ATTEMPTED WITHOUT SUCCESS TO DISCUSS RESOURCE REVENUE-SHARING AT FIRST MINISTERS' ENERGY CONFERENCE LAST JANUARY AND SINCE THEN HAS CONTINUED TO INFORM PROVINCES OF FEDERAL RIGHTS IN RESOURCE TAXATION. HE ALSO REMINDED MINISTERS THAT IN 1972 "AS PART OF TAX REFORMS, ENACTED BY PARLIAMENT, IT WAS PROVIDED THAT MINING TAXES AND INCOME ROYALTIES WOULD CEASE TO BE DEDUCTIBLE FOR TAX PURPOSES AS OF 1976" AND THEREFORE FEDERAL GOVERNMENT WAS NOT PROPOSING ANY NEW PRINCIPLE.

5. TURNER TRACED HISTORY OF MINING AND PETROLEUM TAXES SINCE WORLD WAR II, NEW TAXES IMPOSED BY PROVINCES, AND CHANGED IN PROVINCIAL/FEDERAL SHARES OF RESOURCE TAXATION. HE CONCLUDED THAT WITH THE HIGHER PROVINCIAL ROYALTIES AND NO CHANGE IN THE EXISTING TAX SYSTEM, "FEDERAL SHARE OF PETROLEUM
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PRODUCTION INCOME WULD HAVE BEEN REDUCED FROM 13 PERCENT TO A MERE 6 PERCENT, WHILE THE PROVINCIAL SHARE OULD HAVE JUMPED FROM 31 PERCENT TO 42 PERCENT".

6. THE FEDERAL GOVERNMENT HAD TAKEN ACCOUNT OF NEEDS OF RESOURCE INDUSTRY, TURNER MAINTAINED, AND HAD PRO-POSED "TO PULL BACK SIGNIFICANTLY" FROM MAY BUDGET PROPOSALS. IN NOVEMBER BUDGET TURNER SAID HE OROPOSED

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TWO-STAGED REDUCTION IN FEDERAL CORPORATE TAX ON PETROLEUM COMPANIES AND RESTORATION OF 100 PERCENT WRITE-OFF FOR EXPLORATION EXPENDITURES.

7. TURNER ENDED BY CALLING ON PROVINCES TO "RESPOND TO THE NEEDS OF THE INDUSTRIES AS THE FEDERAL GOVERNMENT HAS."

8. IN STATEMENT ON EQUALIZATION PAYMENTS BY FEDERAL GOVERNMENT TO PROVINCES, TURNER EXPLAINED HIS NOVEMBER BUDGET PROPOSAL TO CHANGE EQUALIZATION PAYMENT TO REFLECT "ADDITIONAL" REVENUES ATTRIBUTED TO INTERNATIONAL OIL DISTURBANCE. (EQUALIZATION PAYMENTS TO PROVINCES ARE BASED ON COMPLEX FORMULA USING VARIOUS PROVINCIAL REVENUE SOURCES, POPULATION AND "NATIONAL AVERAGE PROVINCIAL REVENUE RATE" TO ARRIVE AT PAYMENT FIGURES.)

9. TURNER SAID THAT THE "INTERNATIONAL OIL DISTURBANCE" AND THE RESULTING INCREASE INPETROLEUM PRICES JEOPARDIZED THE EQUALIZATION PROGRAM AND "LEFT THE FEDERAL GOVERNMENT TO THE CONCLUSION THAT EQUALIZATION WOULD HAVE TO BE MODIFIED". HE THEREFORE PROPOSED IN NOVEMBER BUDGET THAT "BASIC" REVENUE BE EQUALIZED IN TOTAL AND "ADDITIONAL" REVENUES BE EQUALIZED TO THE EXTENT OF ONE-THIRD. ("ADDITONAL" REVENUES ARE THOSE RELATED TO THE INCREASED PRICES OF PETROLEUM.)

10.UNDER THE NEW SCHEME, ONLY SASKATCHEWAN WOULD RECEIVE LOWER PAYMENTS (C$100,868,000 INSTEAD OF C$141,662,000) IN 1974-75. TURNER JUSTIFIED THIS REDUCTION ON THE BASIS THA SASKATCHEWAN IS A "HAVE" PROVINCE WITH RESPECT TO OIL AND HAS THE "CAPACITY
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TO RAISE REVENUE FROM THIS SOURCE...ABOVE THE NATIONAL AVERAGE".

11. NEWSPAPER ACCOUNTS OF THE MEETING REPORT THAT TURNER TOLD THE MINISTERS HE WAS STILL CONSULTING WITH BUSINESS, LABOR, PROFESSIONAL AND FARM GROUPS IN AN ATTEMPT TO ESTABLISH FEDERAL POLICY ON INFLATION. HE HAD RULED OUT MANDATORY WAGE AND PRICE CONTROLS BUT WAS WORKING ON A SCHEME TO "COMPENSATE" SECTORS OF CANADIAN ECONOMY WHICH VOLUNTARILY ADOPTED WAGE AND PRICE GUIDELINES. NO DETAILS ON COMPENSATION HAD YET BEEN DEVELOPED.

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12. COMMENT: CURRENT FEDERAL/POROVINCIL IMPASSE ON RESOURCE TAXATION IS SENDING OUT INCREASINGLY STRONG SHOCK WAVES IN THE OIL INDUSTRY.ECONOMIC UNCERTAINTIES CREATED BY DISPUTE, ALONG WITH SOARING CAPITAL COST ESTIMATES, HAVE NOW SERIOUSLY JEOPARDIZED ALL ATHABASCA OIL SANDS DEVELOPMENT PROJECTS DESPITE THEIR CRITICAL IMPORTANCE TO CANADA'S OIL SUPPLY REQUIREMENTS IN THE 1980'S.

13. NEVERTHELESS, FEDERAL/PROVINCIAL CONFRONTATION SEEMS LIKELY TO CONTINUE FOR AT LEAST SEVERAL MORE WEEKS. FEDERAL GOVERNMENT PRESENTLY SHOWS NO INCLINATION TO COMPROMISE BEYOND "CONCESSIONS" OFFERED IN NOVEMBER GUDGET AS COMPARED TO MAY BUDGET. PROVINCES ARE NEARLY UNANIMOUS IN SEEING THEIR RESOURCE "SOVEREIGNTY"" THREATENED BY THE FEDERAL TAX MEASURES AND THE PHILOSOPHY UNDERLYING THEM, ALTHOUGH THEIR EXPRESSIONS OF OUTRAGE ARE EMPERED TO VARYING DEGREES BY LOCAL CONSIDERATIONS. MARITIME PROVINCES OFFICIALS, FOR EXAMPLE, WOULD HARDLY WISH TO APPEAR TO THEIR CONSUMING CONSTITUENTS AS ARGUING FOR A HIGHER DOMESTIC OIL PRICE LEVEL, A SOLUTION WHICH MIGHT MOLLIFY PRODUCER PROVINCES.

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14. IN THESE CIRCUMSTANCES, CONVENING OF FIRST MINISTERS IN OTTAWA EARLY IN 1975 SEEMS ALMOST INEVITABLE. ONE LIKELY RESULT OF SUCH MEETING WOULD BE AGREEMENT TO INCREASE DOMESTIC OIL PRICE NOT REPEAT NOT TO WORLD MARKET LEVELS INITIALLY BUT UPWARDS FROM PRESENT $6.50 WELLHEAD PRICE TO PERHAPS $8.50.

15. TURNER'S PROPOSALS FOR VOLUNTARY CONTROLS ON PRICES AND WAGES ARE PURPOSEFULLY VAGUE AS HE AND OTHER GOC OFFICIALS MAINTAIN THAT INFLATIONIS WORLD-WIDE PHENOMENON THAT AFFECTS CANADA AND CANNOT BE CURED BY FEDERAL GOVERNMENT ACTION. TO COUNTER CRITICISM THAT GOVERNMENT IS DOING NOTHING TO SOLVE PROBLEM, TURNER IS CONSULTING PROVINCIAL AUTHORITIES AND BUSINESS AND LABOR LEADERS BUT WITHOUT ANY SPECIFIC GOC PROPOSALS FOR FIGHTING INFLATION. APPARENTLY HALF-HEARTED ATTEMPTS TO ARRIVE AT NATIONAL CONSENSUS FOR VOLUNTARY RESTRAINT SUPPORT ASSUMPTION THAT TURNER'S MAJOR FEAR IS POSSIBILITY OF RECESSION AND HIGH UNEMPLOYMENT. TURNER'S NOVEMBER BUDGETARY PROPOSALS FOR REDUCED INCOME AND SALES TAXES AND HIS PROPOSED MEASURES TO SPUR HOUSING CONSTRUBTION REFLECT THIS ATTITUDE.

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